

1-1-1995

Checklists and illustrative financial statements for defined benefit pension plans : a financial accounting and reporting practice aid, May 1995 edition

American Institute of Certified Public Accountants. Technical Information Division

Luis E. Cabrera

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Industry Guides (AAGs), Risk Alerts, and Checklists. 777.

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AICPA

**MAY 1995
EDITION**

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

*A Financial Accounting and
Reporting Practice Aid*

AMERICAN

INSTITUTE OF

CERTIFIED

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AICPA

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*A Financial Accounting and
Reporting Practice Aid*

*Edited by
Luis E. Cabrera, CPA
Technical Manager, Technical Information Division*

*Checklists and Illustrative Financial Statements for Defined
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FSP Section 17,000

CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR DEFINED BENEFIT PENSION PLANS

.01 The checklists and illustrative financial statements included in this section have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative technical practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated. Pronouncements deemed remote for audits of defined benefit plans are not included in this document.
- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists have been updated to include relevant pronouncements through Statement on Auditing Standards No. 74, FASB Statement of Financial Accounting Standards No. 121, FASB Interpretation No. 41, FASB Technical Bulletin No. 94-1, AICPA Statement of Position No. 95-1, AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans* (with conforming changes as of May 1, 1995), AICPA Practice Bulletin No. 13, and EITF consensuses adopted up to and including the January 19, 1995, Emerging Issues Task Force meeting. The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the financial statements.

.02 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

Note: This publication was extracted from sections 17,000 through 17,500 of the *AICPA Financial Statement Preparation Manual* (FSP).

FSP Section 17,100

Introduction

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Defined benefit pension plans provide a promise to pay to participants specified benefits that are determinable and are based on such factors as age, years of service, and compensation.

.02 Defined benefit pension plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). Contributions may be required from both employers and participants (contributory plans) or from employers only (noncontributory plans).

.03 The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most defined benefit pension plans against the loss of certain pension benefits if the plans terminate, and it administers terminated plans in certain circumstances.

Regulatory Requirements

.04 The Employee Retirement Income Security Act of 1974 (ERISA) provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.05 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The report of most significance to the auditor is the annual report. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and Titles I and IV of ERISA.

Financial Accounting and Reporting Standards

.06 FASB Statement of Financial Accounting Standards (SFAS) No. 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS No. 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts*, establishes generally accepted accounting principles for defined benefit pension plans. The AICPA Audit and Accounting Guide, *Audits of Employee Benefit Plans*, also establishes generally accepted accounting principles for defined benefit pension plans.

Accounting and Reporting by Defined Benefit Pension Plans

.07 Defined benefit pension plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year.
- A statement of changes in net assets available for benefits for the year then ended.
- Information regarding the actuarial present value of accumulated plan benefits.
- Information regarding the effects, in any, of certain factors affecting the year-to-year change in accumulated plan benefits.

.08 Information regarding the actuarial present value of accumulated plan benefits and changes therein may be presented in the financial statements or in the notes. Further, the accumulated benefit information may be presented as of the beginning or end of the plan year. If the information is as of the beginning of the year, prior year statements of net assets and changes therein are also required. Otherwise, comparative statements are not required (however, see paragraph .11 below).

.09 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.10 Insurance contracts, defined in SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA, consistent with the requirements of DOL Form 5500 or 5500-C/R. A plan not subject to ERISA should present its insurance contracts as if the plan were subject to the reporting requirements of ERISA.

.11 In addition to the reporting requirements of SFAS No. 35, as amended, defined benefit pension plans may have reporting requirements under ERISA. Schedules required by ERISA include assets held for investment purposes, transactions with parties in interest, loans or fixed-income obligations due in default or uncollectible, leases in default or uncollectible, and reportable transactions. Further, ERISA requires that the statement of net assets available for benefits be presented in comparative form.

FSP Section 17,200

Checklists—General

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications. However, authoritative literature does not require the use of such checklists, nor does it prescribe their format or content, which may vary.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to Statements on Auditing Standards, Statements of Financial Accounting Standards, Accounting Principles Board Opinions, Accounting Research Bulletins, AICPA Statements of Position, and EITF consensuses. Some checklists also include references to FASB Interpretations and the AICPA Audit and Accounting Guides. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for "yes," "no," and "not applicable" answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: "not applicable," "not material," "in statements," and "in notes" (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, "disclosed" and "not applicable." Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

FSP Section 17,300

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

AAG =	AICPA Audit and Accounting Guide, <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1995)
SFAS =	FASB Statement of Financial Accounting Standards
FASBI =	FASB Interpretation
APB =	AICPA Accounting Principles Board Opinion
ARB =	AICPA Accounting Research Bulletin
AC =	Reference to section number in <i>FASB Accounting Standards—Current Text</i>
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in <i>AICPA Professional Standards</i> (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
PBGC =	Pension Benefit Guaranty Corporation

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General			
A. Financial Statements			
1. Do the annual financial statements of the plan include:			
a. A "Statement of Net Assets Available for Benefits" as of the end of the plan year?	_____	_____	_____
b. A "Statement of Changes in the Net Assets Available for Benefits" during the year?	_____	_____	_____
c. A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? [SFAS 35 recommends reporting as of the end of the plan year]	_____	_____	_____
d. A "Statement of Changes in Accumulated Plan Benefits"? [The information in Steps c. and d. above can be alternatively disclosed in the notes to the financial statements] [SFAS 35, pars. 6 and 8 (AC Pe5.105 and .107); AAG, par. 2.07]	_____	_____	_____
2. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? [SFAS 35, par. 7 (AC Pe5.106)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? [SFAS 35, par. 7 (AC Pe5.106)]	_____	_____	_____
4. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? [SFAS 35, par. 7 (AC Pe5.106); AAG par. 2.18]	_____	_____	_____
5. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? [SFAS 35, par. 5 (AC Pe5.104)]	_____	_____	_____
B. Comparative Financial Statements			
1. Are comparative statements considered? ¹ [ARB 43, Ch. 2A, pars. 1—2 (AC F43.101—.102)]	_____	_____	_____
2. Are the notes and other disclosures included in the financial statements of the preceding year(s) presented, repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43, Ch. 2A, par. 2 (AC F43.102)]	_____	_____	_____
3. If changes have occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43, Ch. 2A, par. 3 (AC F43.103)]	_____	_____	_____
C. Titles and References			
1. Are the financial statements suitably titled? [SAS 62, par. 7 (AU 623.07)]	_____	_____	_____
2. Does each statement include a general reference to the notes indicating that they are an integral part of the financial statements? [Generally Accepted]	_____	_____	_____
D. Description of Pension Plan			
1. Do disclosures include a brief, general description of the plan agreements, including a description of the vesting and benefit provisions? [SFAS 35, par. 28a (AC Pe5.127a); AAG, par. 2.24a; SOP 94—6, par. 10]	_____	_____	_____
2. For ERISA plans, does the plan description include a discussion of the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.24c]	_____	_____	_____
Note: If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosure required by paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, par. 28c, fn. 16 (AC Pe 5.127c, fn. 21) for appropriate wording.			
E. Disclosure of Accounting Policies			
1. Is a description of all significant accounting policies of the pension plan presented as an integral part of the financial statements? [APB 22, par. 8 (AC A10.102)]	_____	_____	_____
2. Does the disclosure of significant accounting policies encompass important judgments as to the appropriateness of principles concerning recognition of revenue and the allocation of asset costs to current and future periods? [APB 22, par. 12 (AC A10.105)]	_____	_____	_____

¹ ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. [AAG, par. 2.07, fn. 3]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22, par. 14 (AC A10.107)]	_____	_____	_____
4. Does the disclosure of the plan's significant accounting policies include a description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [SFAS 35, par. 27a (AC Pe5.126a)]	_____	_____	_____
5. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (e.g., assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits? [SFAS 35, par. 27b (AC Pe5.126b)]	_____	_____	_____
6. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed? [SFAS 35, par. 20c (AC Pe5.119c)]	_____	_____	_____
F. Description of Pension Plan Amendments			
1. Do disclosures include a description of significant plan amendments adopted during the year ending on the latest benefit information date? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.24b]	_____	_____	_____
2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? [SFAS 35, par. 28b (AC Pe5.127b); AAG, par. 2.24b]	_____	_____	_____
3. For ERISA plans, do the disclosures include a discussion of the application of the PBGC guaranty to any recently adopted plan amendments? [SFAS 35, par. 28c (AC Pe5.127c); AAG, par. 2.24c]	_____	_____	_____
Note: If material providing this information is otherwise published and made available to participants (e.g., employee handbook), the disclosure required by paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35, par. 28c, fn. 16 (AC Pe5.127c, fn. 21) for appropriate wording.			
G. Accounting Changes			
1. For a change in accounting principles, do disclosures in the period of the change include:			
a. Nature of the change?	_____	_____	_____
b. Justification for the change, including a clear explanation of why the newly adopted accounting principle is preferable?	_____	_____	_____
c. Effect on earnings of the plan? [APB 20, par. 17 (AC A06.113)]	_____	_____	_____
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? [APB 20, pars. 19—22 and 25 (AC A06.115—.118 and .121)]	_____	_____	_____
3. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction:			
a. Nature of the error in previously issued financial statements?	_____	_____	_____
b. Effect of its correction on the changes (1) in the actuarial present value of accumulated plan benefits and (2) in the net assets available for benefits? [APB 20, par. 37 (AC A35.105); SFAS 109, par. 288n (AC A35.103)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
4. If there have been any changes in accounting estimates:			
a. If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? [APB 20, par. 33 (AC A06.132)]	_____	_____	_____
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20, par. 38 (AC A06.133)]	_____	_____	_____
H. Related-Party Transactions			
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	_____	_____	_____
b. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which "Statements of Changes in Net Assets Available for Benefits" are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements?	_____	_____	_____
c. The dollar amounts of transactions for each of the periods for which "Statements of Changes in Net Assets Available for Benefits" are presented and the effects of any change in the method of establishing the terms from that used in the preceding period?	_____	_____	_____
d. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57, pars. 2—4 (AC R36.102—.104)]	_____	_____	_____
2. Is the nature of a controlled relationship disclosed, even though there are no transactions between the entities, if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57, par. 4 (AC R36.104)]	_____	_____	_____
3. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13, par. 29 (AC L10.125)]	_____	_____	_____
4. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG, pars. 2.24h and A.51c] Note: ERISA defines a party-in-interest generally as any fiduciary or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee association whose members are covered by the plan, a person who owns 50% or more of such an employer or employee association, or relatives of a person described above. [AAG A.84, fn. 78; ERISA sections 3(14) and 406]	_____	_____	_____
I. Contingencies and Commitments			
1. Are the nature and amount of accrued loss contingencies, including those related to litigation, claims and assessments, disclosed as necessary to keep the financial statements from being misleading? [SFAS 5, pars. 9 and 34 (AC C59.108 and .140)]	_____	_____	_____
2. For loss contingencies not accrued, including those related to litigation, claims and assessments, do disclosures indicate:			
a. Nature of the contingency?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5, pars. 10 and 33—39 (AC C59.109, .111 and .139—.145)]	_____	_____	_____
3. If exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures include the excess amount or state that no estimate is possible? [SFAS 5, par. 10 (AC C59.109)]	_____	_____	_____
4. Are gain contingencies disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5, par. 17 (AC C59.118)]	_____	_____	_____
5. Are the nature and amount of any guarantees (e.g., guarantees of indebtedness of others) disclosed? [SFAS 5, par. 12 (AC C59.113); FASBI 34, pars. 1—3 (AC C59.114)]	_____	_____	_____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? [SFAS 5, pars. 18—19(AC C59.120)]	_____	_____	_____
J. Subsequent Events			
1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? [SFAS 5, par. 8 (AC C59.105); SAS 1, secs. 560.03—.04, .07 (AU 560.03—.04, .07)]	_____	_____	_____
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed to keep the financial statements from being misleading? [SFAS 5, par. 11 (AC C59.112); SAS 1, secs. 560.05—.07, .09 (AU 560.05—.07, .09); AAG, pars. 2.24i and 2.32]	_____	_____	_____
3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? [SFAS 35, par. 28i (AC Pe5.127i)]	_____	_____	_____
4. For those unusual or infrequent events or transactions identified in Step J.3 above, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? [SFAS 35, par. 28i (AC Pe5.127i)]	_____	_____	_____
K. Plan Terminations			
1. If a decision is made to terminate the plan, is this fact disclosed? [AAG, par. 2.32]	_____	_____	_____
2. If a decision is made to terminate the plan before the date of the "Statement of Accumulated Plan Benefits", have all benefits been reported as vested? [AAG, par. 2.34]	_____	_____	_____
L. Income Tax Status			
1. If a favorable letter of determination is not obtained or maintained, is the federal income tax status of the plan disclosed? ² [SFAS 35, par. 28f (AC Pe5.127f); AAG, par. 2.24f]	_____	_____	_____

² Reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended. [AAG, par. 2.24f]

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
M. Financial Instruments (General—See also steps for specific areas)			
<p>Note: In addition to requiring disclosures about derivative financial instruments, SFAS 119 amends existing disclosure requirements of SFAS 105 and SFAS 107. For plans with less than \$150 million in total assets in the current "Statement of Net Assets Available for Benefits," the effective date of SFAS 119 is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged. The SFAS 119 amendments to SFAS 105 and SFAS 107 disclosures are reflected below. If the plan has not adopted SFAS 119, follow the guidance set forth in the footnotes to the applicable disclosure items. See section N., "Derivatives," for SFAS 119 disclosures for derivative financial instruments.</p>			
1. For financial instruments with off-balance-sheet risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument: ^{3, 4}			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including, at a minimum, a discussion of:			
(1) The credit and market risk of those instruments?	_____	_____	_____
(2) The cash requirements of those instruments?	_____	_____	_____
(3) The related accounting policy pursuant to the requirements of APB 22 (AC A10)? [SFAS 105, par. 17 as amended by SFAS 119, par. 14 (AC F25.112)]	_____	_____	_____
2. Do the disclosures noted in Steps 1a. and b. distinguish between financial instruments with off-balance-sheet risk held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments with off-balance-sheet risk held or issued for purposes other than trading? [SFAS 105, par. 17 as amended by SFAS 119, par. 14 (AC F25.112A)]	_____	_____	_____
3. For financial instruments with off-balance-sheet credit risk (except for those excluded in SFAS 105), are the following disclosed, either in the body of the financial statements or in the notes, by category of financial instrument: ⁴			
a. The amount of accounting loss the plan would incur if any party to the financial instrument failed completely to perform according to the terms of the contract and if the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
b. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 18 as amended by SFAS 119, par. 14 (AC F25.113)]	_____	_____	_____
4. Do disclosures of all significant concentrations of credit risk arising from all financial instruments, whether from an individual counterparty or groups of counterparties (except for certain insurance and investment contracts, purchase and pension obligations), include:			

³ *Category of financial instrument* refers to class of financial instrument, business activity, risk, or other category that is consistent with the management of those instruments. If disaggregation of financial instruments is other than by class, the plan should also describe for each category the classes of financial instruments included in that category. Practices for grouping and separately identifying—classifying—similar financial instruments in statements of financial position, in notes to financial statements, and in various regulatory reports have developed and become generally accepted, largely without being codified in authoritative literature. In SFAS 105 (AC F25), "class of financial instrument" refers to those classifications.

⁴ If the plan has not adopted SFAS 119, the word *category* in Steps 1. and 3. should be changed to *class*. Furthermore, the description of *category* and the requirement to disclose the classes of financial instruments included in each category if disaggregation of financial instruments is other than by class (described in footnote 3 to Step 1.) and the requirement to distinguish between financial instruments held or issued for trading purposes and those held or issued for purposes other than trading (described in Step 2.) should be disregarded.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	_____	_____	_____
b. The amount of the accounting loss due to credit risk the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and if the collateral or other security, if any, for the amount due proved to be of no value to the plan?	_____	_____	_____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? [SFAS 105, par. 20 (AC F25.115)]	_____	_____	_____
NOTE: For plans with less than \$150 million in total assets in the current "Statement of Net Assets Available for Benefits," the effective date for SFAS 107 disclosures is for financial statements issued for fiscal years ending after December 15, 1995. However, earlier application is encouraged.			
5. Is the fair value of financial instruments for which it is practicable to estimate that value (except for those excluded in paragraphs 8 and 13 of SFAS 107), together with the related carrying amount in a form that makes it clear whether the fair value and carrying amount represent assets or liabilities and how the carrying amounts relate to what is reported in the "Statement of Net Assets Available for Benefits," disclosed either in the body of the financial statements or in the accompanying notes? ^{5, 6} [SFAS 107, par. 10 as amended by SFAS 119, par. 15a-b (AC F25.115C)]	_____	_____	_____
6. Do the disclosures noted in step 5. distinguish between financial instruments held or issued for trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings, and financial instruments held or issued for purposes other than trading? ⁶ [SFAS 107, par. 10 as amended by SFAS 119, par. 15c (AC F25.115C)]	_____	_____	_____
7. Are the method(s) and significant assumptions used to estimate the fair value of financial instruments disclosed? [SFAS 107, par. 10 (AC F25.115C)]	_____	_____	_____
8. If it is not practicable to estimate the fair market value of a financial instrument, are the following disclosed:			
a. Information pertinent to estimating the fair value of the financial instrument or class of financial instruments, such as the carrying amount, effective interest rate, and maturity?	_____	_____	_____
b. The reasons why it is not practicable to estimate fair value? [SFAS 107, par. 14 (AC F25.11G)]	_____	_____	_____
9. If the offsetting of derivative financial instruments against nonderivative financial instruments is not permitted under FASB Interpretation No. 39, <i>Offsetting of Amounts Related to Certain Contracts</i> , does the organization, in disclosing the fair value of a derivative financial instrument, <u>not</u> : ⁶			
a. Combine, aggregate, or net the fair value with the fair value of a nonderivative financial instrument?	_____	_____	_____
b. Net the fair value with the fair value of other derivative financial instruments? [SFAS 107, par. 13 as amended by SFAS 119, par. 15d (AC F25.115I)]	_____	_____	_____

⁵ If disclosed in more than a single note, one of the notes should include a summary table containing the fair value and related carrying amounts and cross-references to the location(s) of the remaining disclosures required by SFAS 107, as amended.

⁶ If the plan has not adopted SFAS 119, the requirement to disclose related carrying amounts (described in Step 5.) and the disclosure requirements described in footnote 5 to Step 5, and in Steps 6. and 9. should be disregarded.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
10. For all fiscal years subsequent to the year of transition, are SFAS 107 disclosures included for each year for which a statement of financial position is presented for comparative purposes? [SFAS 107, par. 17]	_____	_____	_____
N. Derivatives (SFAS 119 is effective for financial statements issued for fiscal years ending after December 15, 1994, except for plans with less than \$150 million in total assets. For those plans, this Statement is effective for financial statements issued for fiscal years ending after December 15, 1995)			
1. For options held and other derivative financial instruments not within the scope of SFAS 105 that do not have off-balance-sheet risk, are the following disclosures made by category of financial instrument:			
a. The face or contract amount (or notional principal amount if there is no face or contract amount)?	_____	_____	_____
b. The nature and terms, including a discussion of:			
(1) Credit and market risk?	_____	_____	_____
(2) Cash requirements?	_____	_____	_____
(3) Related accounting policy as required by APB 22?	_____	_____	_____
c. Do disclosures in Steps 1.a. and b. above distinguish between financial instruments held or issued for:			
(1) Trading purposes, including dealing and other trading activities measured at fair value with gains and losses recognized in earnings?	_____	_____	_____
(2) Purposes other than trading? [SFAS 119, pars. 8 and 9]	_____	_____	_____
2. Does the plan that holds or issues derivative financial instruments for trading purposes disclose:			
a. The average fair value during the reporting period and the related end-of-period fair value, distinguishing between assets and liabilities?	_____	_____	_____
b. The net gains or losses (net trading revenue) arising from trading activities during the reporting period disaggregated by class, business activity, risk or other category consistent with management of those activities and where those net trading gains or losses are reported in the "Statement of Changes in Net Assets Available for Benefits"?	_____	_____	_____
(1) If the disaggregation is other than by class, did the plan also disclose for each category the classes of derivative financial instruments, other financial instruments, and nonfinancial assets and liabilities from which the net trading gains and losses arose?	_____	_____	_____
c. The average fair value for assets and liabilities from the trading of other types of financial instruments or nonfinancial assets (this disclosure is encouraged but not required)? [SFAS 119, par. 10]	_____	_____	_____
3. Does a plan that holds or issues derivative financial instruments for purposes other than trading disclose:			
a. A description of:			
(1) The objectives for holding or issuing?	_____	_____	_____
(2) The context needed to understand those objectives?	_____	_____	_____
(3) The strategies for achieving those objectives?	_____	_____	_____
(4) The classes of derivative financial instruments used?	_____	_____	_____
b. A description of how each class of derivative financial instrument is reported in the financial statements, including:			
(1) The policies for recognition and measurement or nonrecognition of the derivative financial instruments?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) When recognized, where the instruments and related gains and losses are reported?	_____	_____	_____
c. For derivative financial instruments that are held or issued and accounted for as hedges of anticipated transactions, both firm and forecasted transactions for which there is no firm commitment, including:			
(1) A description of the anticipated transactions whose risks are hedged, including the expected time period of occurrence?	_____	_____	_____
(2) A description of the classes of derivative financial instruments used to hedge?	_____	_____	_____
(3) The amount of explicitly deferred hedging gains and losses?	_____	_____	_____
(4) A description of the transaction or events that result in the recognition in earnings of the deferred gains or losses? [SFAS 119, par. 11]	_____	_____	_____
4. Are the following encouraged, but not required, quantitative disclosures made:			
a. Interest rate?	_____	_____	_____
b. Foreign exchange?	_____	_____	_____
c. Commodity price?	_____	_____	_____
d. Other market risks consistent with management's strategies?	_____	_____	_____
e. Information of the risk of other financial instruments or nonfinancial assets and liabilities related by risk management strategy pertaining to the objectives for holding or issuing derivative financial instruments? ⁷ [SFAS 119, pars. 12 and 13]	_____	_____	_____
O. Risks and Uncertainties (SOP 94-6, <i>Disclosure of Certain Significant Risks and Uncertainties</i> , is effective for financial statements issued for fiscal years ending after December 15, 1995, and for financial statements for interim periods in fiscal years subsequent to the year for which this SOP is to be first applied. Early application is encouraged but not required.)			
1. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included in the financial statements? [SOP 94-6, par. 11]	_____	_____	_____
2. Is disclosure regarding an estimate made when known information available prior to the issuance of the financial statements indicates that both of the criteria in SOP 94-6, paragraph 13 are met? [SOP 94-6, par. 13]	_____	_____	_____
3. Does the disclosure in Step 2 above indicate the nature of the uncertainty and include an indication that it is at least reasonably possible that a change in the estimate will occur in the near term? [SOP 94-6, par. 14]	_____	_____	_____
4. If the estimate in Step 2 above involves a loss contingency covered by SFAS 5, <i>Accounting for Contingencies</i> , do disclosures include an estimate of the possible loss or range of loss, or state that such an estimate cannot be made? [SOP 94-6, par. 14]	_____	_____	_____

⁷ Suggested methods of disclosure of the above include:

- a. Additional details about current positions and period activity.
- b. Hypothetical effects on equity or on annual income due to several possible changes in market prices.
- c. Gap analysis of interest rate repricing or maturity dates.
- d. Duration of financial instruments.
- e. The plan's value at risk from derivative financial instruments and other positions at period end and the average value at risk during the year.
- f. Any other helpful informative disclosures.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Have the optional disclosures in paragraphs 14 and 15 of SOP 94-6 been considered? [SOP 94-6, pars. 14 and 15]	_____	_____	_____
6. Is disclosure of the concentrations described in paragraph 22 of SOP 94-6 made, if, based on information known to management prior to issuance of the financial statements, the criteria in paragraph 21 are met? [SOP 94-6, pars. 21 and 22]	_____	_____	_____
7. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside of the plan's home country that meet the criteria of Step 6 above, are the following specific items disclosed:			
a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year?	_____	_____	_____
b. The carrying amounts of net assets and the geographic areas in which they are located? [SOP 94—6, par. 24]	_____	_____	_____
P. Other Matters			
1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year? [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d); AAG, par. 2.24d]	_____	_____	_____
a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [SFAS 35, par. 28d, fn. 17 (AC Pe5.127d, fn. 22)]	_____	_____	_____
b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.24d]	_____	_____	_____
c. For ERISA plans, do disclosures include whether the minimum funding requirements of ERISA are met? [SFAS 35, par. 28d (AC Pe5.127d); AAG, par. 2.24d]	_____	_____	_____
d. If a minimum funding waiver has been granted by the IRS or if a request for a waiver is pending before the IRS, is this fact disclosed? [SFAS 35, par. 28d (AC Pe5.127d)]	_____	_____	_____
e. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method? [SFAS 35, par. 262 (AC Pe5.127d)]	_____	_____	_____
f. Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information? [SFAS 35, par. 263 (AC Pe5.127d)]	_____	_____	_____
2. Do disclosures include the policy regarding the purchase of contracts with insurance companies that are excluded from plan assets and the income from those contracts? [SFAS 35, par. 28e (AC Pe5.127e); AAG, par. 2.24e]	_____	_____	_____
3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (a) the sponsor, (b) the employer(s), or (c) the employee organization(s)? [See also section H, <i>Related-Party Transactions</i> , regarding parties-in-interest] [SFAS 35, par. 28h (AC Pe5.127h); AAG, par. 2.24h]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Statement of Net Assets Available for Benefits			
A. General			
1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35, par. 9 (AC Pe5.108)]	_____	_____	_____
B. Classification of Investments			
1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [SFAS 35, par. 13 (AC Pe5.112); AAG, par. 2.13]	_____	_____	_____
2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits":			
a. Government securities?	_____	_____	_____
b. Short-term securities?	_____	_____	_____
c. Corporate bonds?	_____	_____	_____
d. Common stocks?	_____	_____	_____
e. Mortgages?	_____	_____	_____
f. Real estate?	_____	_____	_____
g. Investments in bank common and commingled trust funds?	_____	_____	_____
h. Master trusts?	_____	_____	_____
i. Investments in contracts with insurance companies, including separate accounts, and deposit administration and immediate participation guarantee contracts? [AAG, par. 2.13]	_____	_____	_____
3. Are investments that represent 5% or more of the plan's net assets available for benefits separately identified in the financial statements or notes thereto? [SFAS 35, par. 28g (AC Pe5.127g); AAG, par. 2.24g]	_____	_____	_____
Note: Listing all investments in the Schedule of Assets Held for Investment Purposes required by ERISA does not eliminate the requirement to include this disclosure in the financial statements. [AAG, par. 2.24g]			
4. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits"? [AAG, par. 2.28]	_____	_____	_____
5. Are the investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? [AAG, par. 2.28]	_____	_____	_____
C. Operating Assets			
1. Are assets used in the administration of the plan presented at cost less accumulated depreciation or amortization? [SFAS 35, par. 14 (AC Pe5.113); AAG, par. 2.09]	_____	_____	_____
Note: SFAS 121 established accounting standards for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to assets to be held and used or disposed of. This standard is effective for financial statements for fiscal years beginning after December 15, 1995, however earlier application is encouraged. Restatement of previously issued financial statements is not permitted.			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. If an impairment loss is recognized for assets to be held and used, are the following disclosures made in financial statements that include the period of the impairment write-down?			
a. A description of the impaired assets and the facts and circumstances leading to the impairment.	_____	_____	_____
b. The amount of the impairment loss and how fair value was determined.	_____	_____	_____
c. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the impairment loss is aggregated if that loss has not been presented as a separate caption or reported parenthetically on the face of the statement.	_____	_____	_____
3. If assets to be disposed of are accounted for in accordance with paragraphs 15-17 of SFAS 121, <i>Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of</i> , are all of the following disclosed in financial statements that include a period during which those assets are held?			
a. A description of assets to be disposed of, the facts and circumstances leading to the expected disposal, the expected disposal date, and the carrying amount of those assets.	_____	_____	_____
b. The loss resulting from the application of paragraph 15 of SFAS 121.	_____	_____	_____
c. The gain or loss, resulting from changes in the carrying amounts of assets to be disposed of that arises from application of paragraph 17 of SFAS 121.	_____	_____	_____
d. The caption in the "Statement of Changes in Net Assets Available for Benefits" in which the gains or losses in Steps b and c are aggregated if those gains or losses have not been presented as a separate caption or reported parenthetically on the face of the statement.	_____	_____	_____
e. The results of operations for assets to be disposed of to the extent that those results are included in the plan's results of operations for the period and can be identified. [SFAS 121, par. 19]	_____	_____	_____
4. If an impairment loss is recognized, is it reported as a component of income from continuing operations before income taxes? [SFAS 121, pars. 13 and 18]	_____	_____	_____
D. Contributions Receivable and Uncollectible Amounts			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	_____	_____	_____
b. Receivables from participants?	_____	_____	_____
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [SFAS 35, par. 10 (AC Pe5.109); AAG, par. 2.14]	_____	_____	_____
2. Do contributions receivable include an allowance for uncollectible amounts? [SFAS 35, par. 91 (AC Pe5.109); AAG, pars. 2.14 and 2.15]	_____	_____	_____
E. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43, Ch. 3A, par. 6 (AC B05.107)]	_____	_____	_____
F. Liabilities			
1. Are liabilities (other than for benefits) deducted in arriving at net assets available for plan benefits? [AAG, par. 2.16]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
Statement of Changes in Net Assets Available for Benefits			
A. General			
1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) illustrate the net appreciation (depreciation) in the fair value of each significant class of investment, segregated between investments whose fair values have been determined by quoted market prices in an active market and those whose fair values have been otherwise determined? [SFAS 35, par. 15 (AC Pe5.114); AAG, par. 2.17]	_____	_____	_____
2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:			
a. Investment income (exclusive of changes in fair value)?	_____	_____	_____
b. Contributions from employer(s), segregated between cash and noncash contributions?	_____	_____	_____
c. Contributions from participants?	_____	_____	_____
d. Contributions from other sources (e.g., state subsidies or federal grants)?	_____	_____	_____
e. Benefits paid to participants?	_____	_____	_____
f. Payments to insurance companies to purchase contracts that are excluded from plan assets?	_____	_____	_____
g. Administrative expenses?	_____	_____	_____
h. Other changes? [SFAS 35, par. 15 (AC Pe5.114); AAG, par. 2.17]	_____	_____	_____
Note: Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against Step A.2.f above. [SFAS 35, pars. 28e and 15g, fn. 9 (AC Pe5.127e and .114g, fn. 13)]			
3. Does the net appreciation (depreciation) in the fair value of investments (see Step A.1 above) include realized gains and losses on investments that were sold during the year? [SFAS 35, par. 15, fn. 7 (AC Pe5.114, fn. 10); AAG, par. 2.17]	_____	_____	_____
4. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (e.g., interest, dividends, etc.) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG, par. 2.28]	_____	_____	_____
B. Contributions			
1. Is the nature of noncash contributions described, either parenthetically or in a footnote? [SFAS 35, par. 15c, fn. 8 (AC Pe5.114c, fn. 12)]	_____	_____	_____
C. Transfer of Assets to or from Other Plans			
1. If there are significant transfers of assets to or from other plans, are they disclosed? [AAG, par. 2.17]	_____	_____	_____

Statement of Accumulated Plan Benefits

A. Actuarial Present Value of Accumulated Plan Benefits

- | | | | |
|---|-------|-------|-------|
| 1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories: | | | |
| a. Vested benefits of participants currently receiving payments? | _____ | _____ | _____ |
| b. Other vested benefits? | _____ | _____ | _____ |
| c. Nonvested benefits?
[SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.21] | _____ | _____ | _____ |

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [SFAS 35, par. 22 (AC Pe5.121)]	_____	_____	_____
B. Accumulated Contributions of Present Employees			
1. Is the amount of the present employees', accumulated contributions as of the benefit information date (including interest, if any) disclosed? [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.21]	_____	_____	_____
2. If interest has been credited on employees' contributions, is the rate(s) disclosed? [SFAS 35, par. 22 (AC Pe5.121); AAG, par. 2.21]	_____	_____	_____
Statement of Changes in Accumulated Plan Benefits			
A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits			
1. Are the significant factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date disclosed, either on the face of the "Statement of Changes in Accumulated Plan Benefits" or in the notes thereto? [SFAS 35, par. 25 (AC Pe5.124); AAG, par. 2.22]	_____	_____	_____
2. Do disclosures related to Step A.1 above include, at a minimum:			
a. Plan amendments?	_____	_____	_____
b. Changes in the nature of the plan (e.g., as a result of a spinoff or merger)?	_____	_____	_____
c. Changes in actuarial assumptions? [SFAS 35, par. 25 (AC Pe5.124); AAG, par. 2.22]	_____	_____	_____
3. If any one factor is individually significant, is that factor separately disclosed? [SFAS 35, par. 25 (AC Pe5.124); AAG, par. 2.22]	_____	_____	_____
4. Are the significant effects of other factors, such as (a) benefits accumulated, (b) the increase (for interest) as a result of the decrease in the discount period, and (c) benefits paid, also disclosed? [SFAS 35, par. 25 (AC Pe5.124)]	_____	_____	_____
Note: Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed. [SFAS 35, par. 25, fn.12 (AC Pe5.124, fn. 17)]			
B. Changes in Actuarial Assumptions			
1. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS 35 (AC Pe5.120), are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? [SFAS 35, par. 25, fn. 11 (AC Pe5.124, fn. 16)]	_____	_____	_____
2. If the effects of changes in actuarial assumptions discussed in Step B.1 above cannot be separately disclosed, are those effects included in benefits accumulated? [SFAS 35, par. 25, fn.12 (AC Pe5.124, fn. 17)]	_____	_____	_____
C. Benefits Paid and Other			
1. Are amounts paid by the plan to an insurance company pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance company) included in benefits paid? [SFAS 35, par. 25 (AC Pe5.124)]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a "statement format" is used, is an additional "other" category used to reconcile the beginning and ending amounts? [SFAS 35, pars. 25 and 26 (AC Pe5.124 and .125); AAG, par. 2.22]	_____	_____	_____

ERISA Reporting Requirements

A. Form 5500 Series Report

1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP, the cash basis or modified accrual basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards?
[AAG, Appendix A]

Note: Pursuant to DOL Reg. 29 CFR 2520.103-1(d), a plan that covers between 80 and 120 participants at the beginning of the plan year may elect to file the same report that was filed the previous year. Plans that file the Form 5500-C/R pursuant to the 80/120 rule are not required to have an audit of their financial statements. [ref: DOL Reg. 29 CFR 2520.104—46].

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the "alternative method" pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include:

- a. A description of accounting principles and variances from GAAP?
- b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?
- c. The funding policy and changes in the funding policy from the prior year?
- d. A description of material lease commitments, and other commitments and contingent liabilities?
- e. A description of any agreements and transactions with persons known to be parties-in-interest?
- f. A general description of priorities in the event of plan termination?
- g. Whether a tax ruling or determination letter has been obtained?
- h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500?
[AAG, Appendix A]

2. For plans filing under either method, are the following financial statements included and covered by the auditor's report:

- a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year?
- b. Separate or combined statements of plan income and expenses and of changes in net assets?
[AAG, Appendix A]

3. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

- a. Investment assets (one schedule of assets held at plan year-end and one schedule of certain assets acquired and disposed of within the plan year) showing separate disclosure of the net realized gain or loss on sales of securities and the net unrealized appreciation (depreciation) of investments held?

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Non-exempt transactions with parties-in-interest?	_____	_____	_____
c. Loans or fixed income obligations that are in default or uncollectible?	_____	_____	_____
d. Leases in default or uncollectible?	_____	_____	_____
e. Reportable transactions, including all individual security transactions that exceed 5% of the fair value of plan assets at the beginning of the year? [AAG, Appendix A]	_____	_____	_____
4. Pursuant to DOL regulations:			
a. Is the auditor's report dated and manually signed?	_____	_____	_____
b. Does it indicate the city and state where issued?	_____	_____	_____
c. Does it identify the statements and schedules covered? [AAG, Appendix A and 29 CFR 2520.103-2]	_____	_____	_____
5. Does the auditor's report:			
a. Disclose any omitted auditing procedures deemed necessary by the auditor and the reasons for their omission?	_____	_____	_____
b. State clearly the auditor's opinion of the financial statements and schedules covered by the report, and the accounting principles and practices reflected therein?	_____	_____	_____
c. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matter on the related financial statements?	_____	_____	_____
d. Are the exceptions, if any, further identified as (a) those that are the result of DOL regulations, and (b) all others? [DOL Regulations, Sec. 29 CFR 2520]	_____	_____	_____

FSP Section 17,400

Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 Explanation of References:

SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 1)
SSARS =	AICPA Statement on Standards for Accounting and Review Services
AR =	Reference to section number in AICPA <i>Professional Standards</i> (vol. 2)
AAG =	AICPA Audit and Accounting Guide, <i>Audits of Employee Benefit Plans</i> (with conforming changes as of May 1, 1995)
DOL =	Department of Labor
CFR =	Code of Federal Regulations

.03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include the appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
Note: DOL Regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.			
2. If the auditor is not independent, is a compilation report that indicates lack of independence issued? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and .38)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08)]	_____	_____	_____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, pars. 47—48 (AU 508.47—.48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—.17)]	_____	_____	_____
c. The financial statements of the plan assume an "End-of-Year Benefit Information Date"? [AAG, par. 13.04]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
d. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL Regulations? [AAG, pars. 13.10—.18]	_____	_____	_____
e. The financial statements of the plan assume a “ <i>Beginning-of-Year Benefit Information Date</i> ”? [AAG, par. 13.05]	_____	_____	_____
Note: AAG includes additional auditor reports with respect to “financial statements of a trust” and “inadequate procedures to value investments.”			
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor’s report? [SAS 58, pars. 16—33 (AU 508.16—.33); AAG par. 13.31]	_____	_____	_____
Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under “Uncertainties” for additional references to specific types of uncertainties.			
b. There is substantial doubt about the plan’s ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase “substantial doubt about the plan’s ability to continue as a going concern”? [SAS 64, par. 1 (AU 341.12—.13); AAG par. 13.38]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
Note: Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report. [AU 9420.64—.65; AAG, par. 13.24]			
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and .81—.82)]	_____	_____	_____
e. The prior-period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
f. The auditor’s opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13); AAG 13.33]	_____	_____	_____
g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
Note: DOL Regulation section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL Regulations.			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40—45 (AU 508.40—.45); SAS 19, par. 12 (AU 333.12); AAG par. 13.28] Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under “Scope of Audit—Limitations” for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.	_____	_____	_____
7. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR section 2520.103—8, is a disclaimer of opinion expressed? [AAG, pars. 13.25—.27]	_____	_____	_____
8. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03); AAG par. 13.23] Note: Consult the Topical Index to the AICPA <i>Professional Standards</i> under “Departures from Established Principles,” “Adverse Opinions,” and “Qualified Opinions” for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.	_____	_____	_____
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 68—69, and 71 (AU 508.39, .68—.69, and .71)]	_____	_____	_____
10. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information: a. State that the audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole? b. Specifically identify the accompanying information? c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements? d. State whether the accompanying information was subjected to the auditing procedures applied in the audit of the basic financial statements and includes the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)] Note: Step 10 above does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR section 2520.103—8. In these situations, see Step 7 above and AAG par. 13.25.	_____ _____ _____ _____	_____ _____ _____ _____	_____ _____ _____ _____
11. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure-related matters noted in an audit? ¹ [SAS 60, pars. 9—19 (AU 325.09—.19)]	_____	_____	_____

¹ Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

FSP Section 17,500

Illustrative Financial Statements

.01 Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of accumulated Plan benefits of XYZ Pension Plan as of December 31, 19X2 and 19X1 and the related statement of changes in net assets available for benefits and of changes in accumulated Plan benefits for the year ended December 31, 19X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 19X2 and 19X1, and the changes in its financial status for the year ended December 31, 19X2, in conformity with generally accepted accounting principles.

[*Signature of Firm*]

[*City and State*]

[*Date*]

Supplemental Schedules Relating to ERISA and DOL Regulations

When the auditors' report covers additional information and the auditor has applied auditing procedures and is expressing an opinion on the additional information, a separate paragraph of the report might be worded as follows:

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of (*identify*), are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

[*Signature of Firm*]

[*City and State*]

[*Date*]

.03 Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 19X2 and 19X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 19X1, and the related statement of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets available for benefits as of December 31, 19X2, and changes therein for the year then ended and its financial status as of December 31, 19X1, and changes therein for the year then ended in conformity with generally accepted accounting principles.

[*Signature of Firm*]

[*City and State*]

[*Date*]

.04 Illustration of Auditors' Report on Financial Statements—Limited-Scope Audits Under DOL Regulations

Independent Auditors' Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 19X1 and 19X0 and for the year ended December 31, 19X1, as listed in the accompanying index. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of and for the years ended December 31, 19X1 (and 19X2) that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not express an opinion on the accompanying financial statements and schedules taken as a whole. The form and content of the information included in the financial statements and schedules, other than that derived from the information certified by the trustee, have been audited by us in accordance with generally accepted auditing standards and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

C&H COMPANY PENSION PLAN

.05

Statements of Net Assets Available for Benefits

[End-of-year benefit information date]

	<i>December 31</i>	
	<u>19X1</u>	<u>19X0</u>
Assets		
Investments at fair value (Notes B, E, F, and G):		
Plan interest in C&H Master Trust	\$2,250,000	\$1,860,000
C&H Company common stock	690,000	880,000
Investment contract with insurance company	1,000,000	890,000
Corporate bonds and debentures	3,500,000	3,670,000
U.S. government securities	350,000	270,000
Mortgages	480,000	460,000
Real Estate	270,000	240,000
Total investments	<u>8,540,000</u>	<u>8,270,000</u>
Receivables:		
Employer's contribution	40,000	35,000
Securities sold	310,000	175,000
Accrued interest and dividends	77,000	76,000
Total receivables	<u>427,000</u>	<u>286,000</u>
Cash	200,000	90,000
Total assets	<u>9,167,000</u>	<u>8,646,000</u>
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	85,000	40,000
Total liabilities	<u>155,000</u>	<u>500,000</u>
Net assets available for benefits	<u>\$9,012,000</u>	<u>\$8,146,000</u>

The accompanying notes are an integral part of the financial statements.

C&H COMPANY PENSION PLAN

.06

Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

	<i>Year Ended December 31, 19X1</i>
Investment income	
Net appreciation in fair value of investments (Note E)	\$ 278,000
Interest	325,000
Dividends	5,000
	<u>608,000</u>
Less investment expenses	39,000
	<u>569,000</u>
Plan interest in C&H Master Trust investment income (Note F)	129,000
	<u>698,000</u>
Contributions (Note C):	
Employer	780,000
Employees	450,000
	<u>1,230,000</u>
Total additions	<u>1,928,000</u>
Benefits paid directly to participants	740,000
Purchases of annuity contracts (Note G)	257,000
	<u>997,000</u>
Administrative expenses	65,000
Total deductions	<u>1,062,000</u>
Net increase	866,000
Net assets available for benefits	
Beginning of year	8,146,000
End of year	<u><u>\$9,012,000</u></u>

The accompanying notes are an integral part of the financial statements.

Note: Pursuant to SFAS No. 102, a statement of cash flows is not required for defined benefit pension plans covered by SFAS No. 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (e.g., when the plan invests in assets that are not highly liquid). [SFAS 102, par. 5]

C&H COMPANY PENSION PLAN

.07

Statement of Accumulated Plan Benefits

[End-of-year benefit information date]

	<i>December 31</i>	
	<u>19X1</u>	<u>19X0</u>
Actuarial present value of accumulated plan benefits (Notes B and C)		
Vested benefits:		
Participants currently receiving payments	\$ 3,040,000	\$ 2,950,000
Other participants	8,120,000	6,530,000
	<u>11,160,000</u>	<u>9,480,000</u>
Nonvested benefits	2,720,000	2,400,000
Total actuarial present value of accumulated plan benefits	<u><u>\$13,880,000</u></u>	<u><u>\$11,880,000</u></u>

The accompanying notes are an integral part of the financial statements.

C&H COMPANY PENSION PLAN

.08

Statement of Changes in Accumulated Plan Benefits

[End-of-Year benefit information date]

	<i>Year Ended December 31, 19X1</i>
Actuarial present value of accumulated plan benefits at beginning of year	\$11,880,000
Increase (decrease) during the year attributable to:	
Plan amendment (Note H)	2,410,000
Change in actuarial assumptions (Note B)	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (Note B)	742,500
Benefits paid	(997,000)
Net increase	<u>2,000,000</u>
Actuarial present value of accumulated plan benefits at end of year	<u>\$13,880,000</u>

The accompanying notes are an integral part of the financial statements.

C&H COMPANY PENSION PLAN

.09

Notes to Financial Statements

A. Description of Plan

The following brief description of the C&H Company Pension Plan (*Plan*) is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. *General.* The Plan is a defined benefit pension plan covering substantially all employees of C&H Company (*Company*). It is subject to the provisions of the Employee Retirement Income Security Act of 1974 (*ERISA*).
2. *Pension Benefits.* Employees with 10 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1 1/2% of their final 5-year average annual compensation for each year of service. The Plan permits early retirement at ages 55-64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering 5 years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the Company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (a) the employee's accumulated contributions plus interest or (b) an annuity for five years.
3. *Death and Disability Benefits.* If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

B. Summary of Accounting Policies

The following are the significant accounting policies followed by the Plan:

1. *Basis of Accounting.* The accompanying financial statements are prepared on the accrual basis of accounting.
2. *Investment Valuation and Income Recognition.* If available, quoted market prices are used to value investments.

The amounts shown in Note E for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair market value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. The fair value of real estate investments, principally rental property subject to long-term leases, has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved. The fair

value of the Plan's interest in the C&H Master Trust (Master Trust) is based on the beginning of year value of the Plan's interest in the trust plus actual contributions and allocated investment income, less actual distributions and allocated administrative expenses (Note F). Quoted market prices are used to value investments in the Master Trust.

The Plan's investment contract with the National Insurance Company (National) (Note G) is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Funds under the investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the Plan's assets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

3. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the Plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Benefits under the Plan are based on employees' compensation during their last five years of credited service.

The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the *valuation date*). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated Plan benefits.

The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 19X1 and 19X0 were (a) life expectancy of participants (the 19X1 Group Annuity Mortality Table was used), (b) retirement age assumptions (the assumed average retirement age was 60), and (c) investment return. The 19X1 and 19X0 valuations included assumed average rates of return of 7% and 6.25%, respectively, including a reduction of .2% to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

4. *Payment of Benefits.* Benefit payments to participants are recorded upon distribution.

C. Funding Policy

As a condition of participation, employees are required to contribute 3% of their salary to the Plan. Present employees' accumulated contributions at December 31, 19X1 and 19X0 were \$2,575,000 and \$2,325,000, respectively, including interest credited at an interest rate of 5% compounded annually. The Company's funding policy is to make annual contributions to the Plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5% for 19X1), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 19X2, the Company's contribution is expected to increase to approximately 6% to provide for the increase in benefits attributable to the Plan amendment effective July 1, 19X1 (Note H). The Company's contributions for 19X1 exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions set forth in ERISA.

D. Plan Termination

In the event the Plan terminates, the net assets of the Plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated:

- a. Benefits attributable to employee contributions, taking into account those paid out before termination.
- b. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the Plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under Plan provisions in effect at any time during the five years preceding Plan termination.
- c. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) up to the applicable limitations (discussed below).
- d. All other vested benefits (that is, vested benefits not insured by the PBGC).
- e. All nonvested benefits.

Benefits to be provided via contracts under which National (Note G) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the Plan are insured by the PBGC if the Plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination. However, there is a statutory ceiling, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For Plan terminations occurring during 19X2, that ceiling is \$X,XXX per month. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the Plan amendment effective July 1, 19X1 (Note H) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the Plan were to terminate before July 1, 19X2. After that date, the PBGC would guarantee 20% of any benefit improvements that resulted in benefits below the ceiling, with an additional 20% guaranteed each year the Plan continued beyond July 1, 19X2. If the amount of the benefit increase below the ceiling is also less than \$100, \$20 of the increase (rather than 20%) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 19X6.

Whether all participants receive their benefits should the Plan terminate at some future time will depend on the sufficiency, at that time, of the Plan's net assets to provide for accumulated benefit obligations, and may also depend on the financial condition of the Plan sponsor and the level of benefits guaranteed by the PBGC.

E. Investments

The following table presents the fair values of investments. Investments that represent 5% or more of the Plan's net assets are separately identified.

	<u>December 31, 19X1</u>	<u>December 31, 19X0</u>
Investments at Fair Value as Determined by Quoted Market Price		
C&H Company common stock, 25,000 shares	\$ 690,000	\$ 880,000
U.S. government securities	350,000	270,000
Corporate bonds and debentures	3,000,000	3,670,000
	<u>4,040,000</u>	<u>4,820,000</u>
Investments at Estimated Fair Value		
Plan interest in C&H Master Trust	2,250,000	1,860,000
Investment contract with National Insurance Company #8041A, 8.0% (Note G)	1,000,000	890,000
Corporate bonds and debentures	500,000	—
Mortgages	480,000	460,000
Real estate	270,000	240,000
	<u>4,500,000</u>	<u>3,450,000</u>
	<u><u>\$8,540,000</u></u>	<u><u>\$8,270,000</u></u>

During 19X1, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$278,000 as follows:

	<u>19X1</u>
Investments at Fair Value as Determined by Quoted Market Price	
C&H Company common stock	\$208,000
U.S. government securities	20,000
Corporate bonds	10,000
	<u>238,000</u>
Investments at Estimated Fair Value	
Investment contract with insurance company	40,000
Corporate bonds and debentures	(50,000)
Mortgages	100,000
Real estate	(50,000)
	<u>40,000</u>
	<u><u>\$278,000</u></u>

F. Interest in C&H Master Trust

A portion of the Plan's investments are in the Master Trust which was established for the investment of assets of the Plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the Master Trust. The assets of the Master Trust are held by GLC Trust Company (Trustee). At December 31, 19X1 and 19X0, the Plan's interest in the net assets of the Master Trust was approximately 9% and 11%, respectively. Investment income and administrative expenses relating to the Master Trust are allocated to the individual plans based upon average monthly balances invested by each plan.

The following table presents the fair values of investments for the Master Trust.

	<i>December 31</i>	
	<i>19X1</i>	<i>19X0</i>
Investments at fair value:		
Common stocks	\$11,900,000	\$ 8,800,000
Corporate bonds	11,800,000	6,700,000
U.S. government securities	867,000	750,000
	<u>\$24,567,000</u>	<u>\$16,250,000</u>

Investment income for the Master Trust is as follows:

	<i>Year Ended December 31,</i>	
	<i>19X1</i>	<i>19X0</i>
Investment income:		
Net appreciation in fair value of investments:		
Common stocks	\$ 300,000	\$ 200,000
Corporate bonds	200,000	200,000
U.S. government securities	300,000	200,000
	<u>800,000</u>	<u>600,000</u>
Interest	400,000	300,000
Dividends	230,000	300,000
	<u>\$1,430,000</u>	<u>\$1,200,000</u>

G. Contract with Insurance Company

In 19W8, the Company entered into an investment contract with the National Insurance Company under which the Plan deposits a minimum of \$100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8%. The interest rate is guaranteed through 19X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the Plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the Plan for the year ended December 31, 19X1 were \$25,000. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

H. Plan Amendment

Effective July 1, 19X1, the Plan was amended to increase future annual pension benefits from $1\frac{1}{4}\%$ to $1\frac{1}{2}\%$ of final 5-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the Plan amendment, an increase in the actuarial present value of accumulated plan benefits of \$2,410,000, was accounted for in the year ended December 31, 19X1. The actuarial present value of accumulated plan benefits at December 31, 19X0 does not reflect the effect of that Plan amendment. The Plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 19X0 was an increase of approximately \$1,750,000, of which approximately \$1,300,000 represents an increase in vested benefits.

I. Tax Status

The Internal Revenue Service informed the Company by a letter dated June 30, 19XX, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

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